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5-6009

CIA/OER/S-06009-74

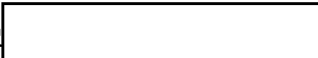
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18 March 1974

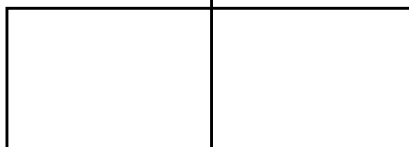
MEMORANDUM FOR: Mr. John Phipps
Division of PRC Affairs
Bureau of East-West Trade
Department of Commerce

SUBJECT : Outlook for China's Position in Textiles

In response to your request of 11 March, I am
forwarding a brief discussion about China's textile
industry. The report is unclassified 

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Attachment:
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(18 March 74)

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OUTLOOK FOR CHINA'S POSITION IN TEXTILES

Textile production has long been a major enterprise in the People's Republic of China, and its exacting task of providing enormous amounts of clothing for domestic consumption and a sizeable margin for exports is not likely to diminish in the years ahead. Indeed, under the impetus of new investment priorities set by Peking in 1972-73, China's textile industry a decade from now should be not only greatly enlarged but also capable of manufacturing a much more modern and varied array of products. In a word, China -- already a major world producer and exporter of cotton textiles and raw silk -- has decided to develop a large-scale synthetic fiber industry.

This ambitious new project promises to:

- o reduce the textile industry's dependence on chronically unstable supplies of natural fibers and release farmland for foodgrain production;
- c provide a less volatile source of textiles for export and for the huge, steadily increasing population;
- o enhance China's competitive position in world markets, where preferences for synthetics are rapidly displacing traditional demands for products made from cotton and other natural fibers; and

- o make simultaneous use of the latest foreign technology in petrochemicals and the fast-growing output from domestic oil fields.

The backbone of this expansion plan is embodied in some 30 or more petrochemical facilities that Peking placed on order in 1973 and early this year. Under contracts signed thus far with firms in Japan and Western Europe -- mostly on deferred payment terms -- China will purchase more than \$700 million worth of whole plants that will have a combined annual capacity of nearly one million metric tons of petrochemical products. Some of the output from these plants undoubtedly will go for uses other than synthetic fibers and fabrics. Nevertheless, when the facilities are completed, China will possess the potential for becoming a ranking world producer of synthetic and other man-made textiles.

Most of the petrochemical facilities will not become operational until late in this decade. In the meantime, cotton must remain "king" of the raw materials processed by China's existing textile mills. Efforts over the last decade to boost domestic production of raw cotton have been only marginally successful, and in the past two years China has had to expand sharply its imports of cotton to keep the mills busy.

Cotton Textiles

Along with the United States, the USSR, and India, China ranks as one of the four largest producers of cotton textiles in the world. Within China, the cotton textile industry is the largest industrial employer, with more than a million persons working in at least 200 mills. Installed equipment includes roughly 10 million spindles and 250,000 looms. Shanghai and Tientsin are the two principal centers of production. Lesser centers of varying size are scattered throughout the country. Most of the big mills are integrated spinning and weaving operations, and many are also equipped for printing and dyeing.

The basic product is cotton yarn, most of which is woven into cloth. Productive capacity in cotton cloth is on the order of 10 billion linear meters. Actual production has never reached that level, however, because of insufficient supplies of cotton. Recent production of cotton cloth is believed to have been averaging around 7-8 billion linear meters on an annual basis -- the best showing since 1959. This level, while large in absolute terms, is small in relation to the needs of the population and export requirements.

The individual ration of cotton cloth ranges from about 4.5 linear meters in southern, subtropical provinces to perhaps 8 meters in the chilly plains, plateaus, and mountains of northwest China. The ration is sufficient to make a simple outfit of trousers and tunic. As for quality, the cloth is

durable but generally drab in appearance. In the past few years, the variety and color of dress in China's urban areas has been improving.

Exports of cotton cloth, which go mostly to non-Communist countries, have been pushed even in years of domestic stringency. Exported cloth is for the most part of the medium and low priced grades and compares favorably with competing Japanese cloth.

Textiles Made from Other Natural Fibers

China is a major world supplier of raw silk. Finished silk as well as woolen textiles are produced primarily for export. Only a small proportion of output is used domestically, consisting chiefly of inferior grades.

Eastern China -- especially Chekiang and Kiangsu provinces -- is the principal areas of mulberry silk cultivation and of the silk industry. Production of tussah silk is concentrated in the northeastern province of Liaoning. Weaving capacity probably amounts to about 250 million linear meters a year, with actual production considerably less. Although some of China's output of silk and part-silk cloth is of high quality in terms of both physical properties and

beauty, the major proportion is reported to be inferior to comparable types of Japanese and European fabrics. The silk cloth used for domestic consumption is almost all a blend of silk and man-made fibers.

China's production of woolen textiles has traditionally been dependent on imports of wool, mostly from the United Kingdom and Australia, because nearly all the domestic wool has been suitable only for the manufacture of carpets or felt. Productive capacity is estimated at about 30 million linear meters a year, roughly half of which is in Shanghai, Tientsin, and Peking. Importers of Chinese woolen textiles have generally praised their quality while criticizing their style.

Textiles from Man-Made Fibers

China was making substantial progress in developing man-made fiber production even before the massive new expansion program was initiated. Domestic output probably now totals around 100,000 metric tons a year. When imports of roughly 60,000 tons are added, China's present supply of man-made fibers is sufficient for annual production of more than one billion linear meters of fabric. This figure could rise to perhaps 6 or 7 billion meters when the imported petrochemical facilities come into production in the late 1970s.

China presently appears to be producing cellulose and synthetics in about equal amounts. The cellulose produced are viscose rayon, cellulose acetate, and triacetate. The synthetics are nylon-6 and nylon-66 types, vinylon, acrylic, polyester, polypropylene, and polyvinylidene chloride.

Thus far, China has constructed at least 25 plants producing cellulosic fibers, most of them equipped with domestically made equipment. In contrast, there are at least 45 synthetic fiber plants, about 70% of which are equipped in whole or in part with production equipment purchased from Japan and Western Europe.

China in the World Market

China's position as a buyer and seller of textiles and textile machinery in the world market is unlikely to change appreciably within the remainder of this decade.

The PRC almost certainly will retain its role for some time as one of the world's chief exporters of cotton cloth and raw silk. Sales of cotton cloth will get tougher, however, because the less developed countries -- China's principal market -- are showing an increasing preference for imports of synthetic fabrics and in some instances are erecting their own textile industries. Except in periods of poor harvests, the Chinese probably will import only a small part of their cotton needs.

Traditional exports of silk and woolen products probably will be maintained at present levels for some time to come because they are important sources of hard currency. China's sizable imports of synthetic fibers will undoubtedly decline as its own capacity in synthetics is expanded.

As far as machinery for making textiles from natural fibers is concerned, the Chinese have a well-established domestic capability and probably can handle most future requirements for replacement. They probably also will hold their own in exports of this machinery to the less developed countries. The Chinese have far less domestic capability in equipment for making synthetic fibers. When they gain access to the new technologies, however, efforts to copy and reproduce the equipment will certainly follow.

Readings of Interest

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